

EES applauds the Department's initiative. It is perhaps surprising, but nonetheless true, that it is easier for a non-market participant in Ohio, New York or Pennsylvania to track statistically the evolution of retail access in those states than for an

active market participant to do the same in Massachusetts. The information requested from the LDCs with respect to switching activity from 1996 forward should go a long way to remedying this lacuna.

Responses to specific questions follow below.

Respectfully submitted,
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CERTIFICATE OF SERVICE

I certify that I have served a copy of this document upon the persons listed on the service list established for this Docket .

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Q. EES-1

Refer to Energy East initial comments at 3. Please provide data to support Energy East' observation that there appear to be fewer competitive suppliers in the market, fewer transportation customers, and a smaller percentage of the market converted to transportation service than five years ago.

A. EES –1

As indicated in the Initial Comments, EES does not have statistical data with regard to gas customer migration rates in Massachusetts (which information of course, the Department is in the process of compiling through its Information Requests ## 4-7 to the LDCs). The basis for the observation in the Initial Comments consisted of information gathered from reading general and trade publications over the last several years regarding market developments (including the demise, exit or sale of marketers such as Enron, EnergyVision, AllEnergy, KBC, and AGF Gas Direct among others) as well as occasional discussions with other market participants, including potential customers, consultants, suppliers and others active one or more segments of the region's market. *See also* the response to Information Request # 2 below.

Q. EES-2: *Please refer to Energy East's initial comments at 6.
(a) Indicate the suppliers that exited the Massachusetts market, closed down or failed in the past five years. Indicate whether the entities listed are suppliers or retail agents.*

A. EES-2(a): As noted above, EES does not have access to the list of suppliers that were active in Massachusetts in the early to mid 1990s prior to institution of licensing, nor to the list of those holding licenses from the Department at the outset of the licensing regime.

To assist the Department in getting a better appreciation of market developments, however, the following two lists may be of some assistance. The first is the list of currently approved gas suppliers displayed on the Department's website.¹ The second, much longer, list is compiled from an emailing list of participants in the Collaborative process in the 1990s. To be sure, not all of the listed participants in the Collaborative were retail suppliers. Still, a comparison of the two lists gives a certain rough indication in the fall-off in interest in this retail market over the last 5 years.

Table I:
List of Licensed Gas Suppliers
(from DTE website, as of June 4, 2004)

AllEnergy
Amerada Hess
BP Energy Company
Energy East Solutions
Global Companies
Metromedia Energy Northeast d/b/a
EnergyExpress, Inc.

O'Brien Energy Marketing
Santa Buckley Energy
SCASCO, Inc.
Select Energy, Inc
Sprague Energy Corp.
TXU Energy Trading
d/b/a TXU Energy Services

¹ An informal telephone survey of the listed companies by undersigned counsel indicates that only 9 of the 12 are currently active in seeking new retail customers in Massachusetts, however.

Table II
List of supply companies with representatives
on emailing list of Unbundling Collaborative in November of 2000
(may include some agents)

AGF Direct	Energy America	JH Energy
AllEnergy	Energy East	NEChoice.com
Amoco	Energy USA	Peregrine group
Anadarko	Energy Vision	PG&E Energy Services
Brightoptions.com	EnergyAgent.com	Shell US
Columbia Energy	Energy East Solutions	Sonat
Coral Energy	Energyrebate	Sprague Energy
Duke	Engage Energy	Statoil Energy
El Paso Merchant Energy	Eprime	TXU Energy Services
energisresources.com	GPH	Usourceonline.com

Q. EES-2 (b): *What were the main reasons that caused suppliers to exit the Massachusetts market, close down or generally fail in the past five years?*

A. EES-2(b): As noted above, EES is not privy to the internal business deliberations of competing suppliers. The question is better directed to those suppliers themselves. Speaking as a general matter, one might guess that -- in addition to the problems specific to the Massachusetts market addressed in EES' Initial Comments -- the reasons included (i) the turmoil in the wholesale markets, with the demise of wholesale trading at Enron, Dynegy, El Paso, and others; (ii) the resulting increase in cost of obtaining and maintaining credit; and (iii) business issues specific to particular companies. The DTE of course does not have control over either the broader, industry-wide issues on the one hand or the company-specific issues on the other.

Q. EES-2 (c): *Would you say that the rate at which suppliers exited the Massachusetts market, closed down or failed in the past five years is higher than rates in other markets, including New York, New Jersey, Rhode Island, Ohio, Pennsylvania and Georgia? Please provide back-up documentation.*

A. EES-2(c): While not specifically showing the number of suppliers that have exited the Massachusetts retail market in recent years in those five states, a review of available public information does show the number of current suppliers and the extent of competitive market penetration. Once the Department receives the LDC statistical information regarding trends in supplier activity and competitive switching in Massachusetts, it will be able to compare those statistics with the experience in these other states. Note that the inclusion of a company in these

lists does not necessarily mean that it is actively taking on new customers or not; the lists are merely print-outs of the current listing published by each of the commissions on their respective websites.

Georgia:

The following link on the site of the Georgia Public Utilities Commission lists 9 suppliers in that state:

<http://www.psc.state.ga.us/gas/marketers.htm> (viewed June 5, 2004).

Ohio

The following link on the site of the Ohio Public Utilities Commission lists 26 licensed suppliers and approximately 49 governmental aggregators in that state:

http://www.puco.ohio.gov/PUCO/Consumer/information.cfm?doc_id=100
(viewed June 5, 2004).

Pennsylvania:

The following link on the site of the Pennsylvania Public Utilities Commission lists approximately 77 suppliers in Pennsylvania.

<http://puc.paonline.com/gas/competition/GasSuppliersList.asp> (viewed June 5, 2004).

A cursory review of the list indicates that it includes six of the companies licensed in Massachusetts as well as 71 others.

New Jersey

The following link on the site of the Bureau of Public Utilities of the State of New Jersey lists licensed suppliers in that state:

<http://www.bpu.state.nj.us/home/gasSupplierList.shtml> (viewed June 5, 2004).

Note that the New Jersey site allows the user to view suppliers by each individual LDC service territory only, rather than statewide. There are, for example, 28 listed companies on Public Service Electric & Gas; 22 suppliers on Elizabethtown Gas Company; 21 South Jersey Gas Company and 14 on New Jersey Natural Gas.

New York:

The following link on the site of the Public Service Commission of the State of New York lists licensed suppliers in that state. Similar to New Jersey, the New York site allows the user to view suppliers by each individual LDC service territory only, rather than statewide. There are, for example, 21 listed suppliers

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for residential service on Keyspan Delivery System (New York) (i.e. the former Brooklyn Union Gas), and 25 listed suppliers for non-residential service; 20 residential suppliers on Consolidated Edison and 29 non-residential suppliers, etc.

<http://www3.dps.state.ny.us/e/esco6.nsf/> (viewed June 5, 2004).

Rhode Island:

The following link on the site of the Public Utilities Commission of the State of Rhode Island lists 41 suppliers in that state:

<http://www.ripuc.org/gas/loc.html> (viewed June 5, 2004).

In addition to lists of gas suppliers in these states, the Department may also find the migration data in these other states to be of value in its review.

Georgia Migration Information:

Migration has been 100 percent since 1998 (pursuant to the Natural Gas Competition and Deregulation Act of 1997). All customers are served by competitive suppliers. See information at the PSC link below:

<http://www.psc.state.ga.us/gas/ngdereg.htm> (viewed June 6, 2004).

Ohio Migration Information:

As of May 2004, about 1.2 million residential customers were enrolled in Ohio, ranging from low of 8 percent of the eligible customers on Cincinnati Gas and Electric to 45 percent of Columbia Gas of Ohio and 54 percent on Dominion East Ohio Gas. Market penetration in the Commercial & Industrial market is the same to slightly *less* than in the residential market. (e.g. 42.8 percent vs. 45 percent on Columbia Gas); 54 percent to 54 percent on Dominion East Ohio; 20.37 percent vs. 24.24 percent on Vectren; but 15.47 percent vs. 8 percent on CG&E). This is summarized on the following table, based on the information published by the PUC at:

http://www.puco.ohio.gov/Puco/StatisticalReports/Report.cfm?doc_id=1066 (viewed June 5, 2004).

Table III
Residential Migration in Ohio

LDC	Eligible Residential Customers	Residential Customers Enrolled	Percent Enrolled
Columbia Gas of Ohio	1,245,970	558,788	45 %
Cincinnati Gas & Electric	385,092	30,948	8 %
Dominion East Ohio Gas	1,078,716	577,326	54 %
Vectren	221,007	53,571	24 %

Pennsylvania: Migration Information

The data for Pennsylvania come from the Winter 2004 Report published by the PUC at

http://www.puc.paonline.com/com_info/Keystone_Competition/KC_Winter_04.pdf (viewed June 5, 2004).

The following table is reproduced from page 3 of that report.

Table IV.
Pennsylvania Gas Shopping

Company	Total Residential Customers	Customers served by alternative suppliers	Percent served by Alternative Supplier
Columbia Gas	344,527	79,694	23.1%
Dominion Peoples	326,382	89,629	27.5%
Equitable Gas	238,167	20,627	8.7%
National Fuel Gas	199,044	0	0%
PECO Gas	415,871	1,709	0.4%
PG Energy	139,415	0	0%
PGW*	487,009	0	0%
PPL Gas	65,860	0	0%
TW Phillips	56,092	0	0%
UGI Gas	268,206	3,231	1.2%
Valley Cities, NUI	4,612	0	0%
Totals	2,545,185	194,890	7.7%
*PGW opened to natural gas choice on Sept. 1, 2003.			

New Jersey Migration Information:

The Board of Public Utilities has reported that, as of the end of February 2004, there were a total of 155,863 customer accounts that had migrated to competitive supply, of which 132,678 were residential and 23,185 were non-residential customer accounts. The link to the source data is:

<http://www.bpu.state.nj.us/energy/gasSwitchData.shtml> (viewed June 5, 2004).

New York Migration Information.

As of March of 2004, total migration to competitive services in New York totaled 359,467 accounts, of which 58,333 were non-residential accounts (about 32.5 percent of the load) and 301,134 were residential accounts (about 13 percent of the load). For more detail, *see*

http://www.dps.state.ny.us/Gas_Migration.htm

A review of the data available at that site shows further that the number of residential accounts served by competitive suppliers has increased about 73 percent (from 174,215 to 301,134) since July of 2000.

Note that the NY PSC has published a report on migration to competitive services in a number of other states (which data may be a bit dated, however). *See*

<http://www.dps.state.ny.us/stakeholder.htm#ga> (for Georgia)

<http://www.dps.state.ny.us/stakeholder.htm#oh> (for Ohio)

<http://www.dps.state.ny.us/stakeholder.htm#pa> (for Pennsylvania)

<http://www.dps.state.ny.us/stakeholder.htm#nj> (for New Jersey)

Rhode Island Migration Information:

The PUC apparently does not publish migration data on the website.

Q. EES-3: *Refer to Energy East initial comments at 6-8. Please discuss any problems with the implementation of the path approach in Rhode Island, including possible problems with the over-subscription of a particular path(s) by marketers. How did Rhode Island address these problems?*

A. EES-3: EES does not have any specific knowledge as to the problems that New England Gas Company may have had, or continues to have, in managing its capacity assignment program. As a customer of the program, EES does know that it operates well and meets the needs for simplifying the capacity allocation mechanism.

Q. EES-4: *Please refer to Energy East initial comments at 9.*

Q. EES-4(a) *Provide the anecdotal information that supports Energy East's observation that overall the total number of end-use customers served by competitive suppliers has probably diminished.*

A. EES-4(a): This observation was based on general market intelligence (conversations with customers, consultants, etc.), review of information in general readership and trade publications; and conversations with customer account representatives at the LDCs on which the company is active. It would have been difficult for anyone active in the market to have failed to see the well known sharp decline in customer participation in the Bay State Pioneer Valley project. *See Initial Comments of Bay State Gas Company, Figure I (showing sharp decline in transportation active meters from the Spring of 2000).*

Q. EES-4(b): *What is the minimum volume threshold required to achieve meaningful savings in Massachusetts? Discuss how you determined the minimum volume threshold.*

A. EES-4(b): The question seems to imply a mathematical elegance to marketing that is simply not reflective of the real complexities that exist in the marketplace. Customers in fact switch to a competitive supplier -- and switch among competitive suppliers -- for a variety of reasons. Some customers seek the ability to lock in a price over a period of time; others seek the exact opposite, preferring a price that varies with an index. Still other customers may seek flexibility in billing. And indeed, the same customer may change preferences over time. The one sure way to lose a customer is to assume that you know what he or she wants.

Hence, the minimum volume required for a supplier to deliver meaningful savings in Massachusetts depends on a host of factors and there is no single "minimum volume" threshold. Just as there are "boutique" suppliers who supply a relatively small number of premium quality products (e.g. Lexus) while others sell a relatively large number of ordinary quality products (e.g. Kia) with innumerable price/quality points along that continuum, so it is with retail energy providers. Hence, the "minimum volume" required for successful operation in a market varies depending on factors such as the business plan, the success in executing the business plan, etc. And of course, because markets are dynamic, the appropriate price/quality combination offered needs to change in response to changes in market conditions.

Q. EES-4(c): *What is the average administrative and operational cost for a typical supplier doing business in Massachusetts for 1999 to 2004?*

A. EES-4(c): In a competitive business, individual suppliers do not know the administration and operational costs of their competitors. Indeed, this information is typically closely held, since its disclosure of a single supplier's information could put that supplier at a competitive disadvantage while the sharing of cost information *among a group of* competitors may be viewed as evidence of anti-competitive acts, raising questions of compliance with federal or state antitrust laws.² Hence EES does not have the information necessary to compute the average administration and operational costs for other suppliers.

Q. EES-4(d): *What is the percentage change in the average administrative and operational cost for a typical supplier doing business in Massachusetts between 1999 and 2004?*

A. EES-4(d): As noted in the answer to question 4(c) above, since cost information is not shared among competitors, EES does not have this data. It may be helpful to the Department, however, to point to a number of developments that are public information and that illustrate the general increase in such costs over the last 5 years.

² The Antitrust Division of the US Department of Justice, for example, has warned that “[w]ithout appropriate safeguards, however, information exchanges among competing providers may facilitate collusion or otherwise reduce competition on prices or compensation, resulting in increased prices, or reduced quality and availability of . . . services.” Statements of Antitrust Enforcement Policy in Health Care Issued by the U.S. Department of Justice and the Federal Trade Commission (August 1996), at 61 (addressing proposed cost information exchange in the health care industry). *See generally* discussion of competitive issues associated with cost sharing among competitors at 61-65.

Transfer of costs from wholesale marketers to retail marketers. Five years ago, there were a number of large wholesale marketers supplying the Massachusetts market who have essentially either gone out of business or have chosen to no longer provide the products and services required by retail marketers. Well-known examples include Enron, El Paso Merchant Energy, Dynegy and PG&E Energy Services, to name some of the best-known companies. Large and sophisticated companies such as these (and others) offered a city gate product where the agreed market price included the costs of providing greater operational flexibility than is now available. In effect, these costs have generally been pushed forward to the retailers as the remaining wholesale suppliers are less willing or able to offer the same services as previously.

Increasing credit costs. The costs of credit have increased significantly over the last several years. The bankruptcy of such large energy wholesalers as Enron, PG&E Energy Services, and Mirant among others has resulted in an industry-wide trend towards tightening credit standards. There is a detailed discussion of this trend in the FERC *State of the Markets Report* (for assessment period ending June 30, 2003) (published March 2004) (prepared by the Office of Market Oversight and Investigations) at pp. 115-117, which addresses credit risk changes in natural gas markets during assessment period. *See also* White Paper on Credit Risk Management of the Committee of Chief Risk Officers (available for purchase at www.CCRO.org). For example, suppliers that might once have accepted parent company guarantees (which did not directly affect a retail marketer's cash flow) may now insist on irrevocable letters of credit from a qualifying bank (an instrument that has a direct and immediate impact on cash flow).

Cash-out and swing rights. A major cost increase has been the institution of cash-out and swing rights. EES understands the need for mechanisms to deal with cashing-out imbalances and managing daily demand volatility and therefore supports reasonable provisions to accomplish these objectives. Still, the high cost of cash-out (especially when the underlying cost of gas has increased so significantly) has increased costs for all market participants. This is discussed in detail in the Initial Comments in this proceeding of Amerada Hess.

Licensing and regulatory costs have increased. For perhaps a decade or so prior to the Department's orders in 1999 and 2000, marketers served retail customers in Massachusetts without the requirement of obtaining a marketer license. What was required was simply to register with the Secretary of State to do business within the state and with the taxing authorities to ensure compliance with applicable tax laws. Hence, the institution of a licensing regime has added somewhat to regulatory compliance costs. More significant, however, is the fact that the license is only valid for a single year at a time. We would strongly

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recommend changing the licensing process so that the license is valid indefinitely, with appropriate annual reporting or with notification-of-change requirements rather than having to re-submit the entire license application every year.

Q. EES-5: *Please refer to Energy East initial comments at 9.*

- (a)** *What is the minimum volume threshold required to achieve meaningful savings in markets such as New York , New Jersey, and Rhode? Discuss how Energy East determined the minimum volume threshold in each market.*

See response to Question 4(b) above.

- (b)** *What is the average administrative and operational cost for a typical supplier doing business in markets such as New York, New Jersey and Rhode Island for each of the past five years?*

See response to question 4 (c) above.

- c)** *What is the percentage change in the average administrative and operational cost for a typical supplier doing business in New York, New Jersey and Rhode Island between 2000 and 2004?*

See response to question 4 (d) above.

Q. EES-6: *Please explain the reasons why competitive suppliers do not serve, as a general basis the residential and small C&I segments.*

A. EES-6: As noted above, EES does not know why its competitors do or do not seek to serve various markets. With regard to EES itself, however, we would offer the following response. First, with regard to serving small C&I segments, please note that EES does in fact serve smaller C&I segments in a number of markets where the company has been able to master the particularities of the local LDC tariff and the relevant supply, market and customer service issues and is able to offer a product and service mix that is attractive to these customers at a competitive price. With regard to residential markets, EES has not concluded to date that the tariff, regulatory and market conditions are such as to allow it to successfully offer a mass-market residential service in Massachusetts. EES further notes that its sister companies in New York (NYSEG Solutions, Inc. and Energetix, Inc.) serve residential and small commercial customers in New York.

Q. EES-7(a): *Please discuss fully the following issues: (a) potential regulatory policies that the Department could implement to encourage competitive suppliers to serve the residential and small C&I segments;*

A. EES-7 (a): *The need for seamless, efficient and painless markets and market procedures.*

Providing services to residential and small C&I customers means *mass-marketing*. It requires handling hundreds of thousands of customer accounts, responding by the thousands to customer sign-ups, terminations, billing and customer service complaints and inquiries. While *seamless, efficient and painless* markets and market procedures are essential to all competitive services, the demands of mass marketing put an extra premium on these considerations.

Seamless: Today, the fact that a customer is located on one LDC or another means that service must be provided under different sets of tariff rules. To a significant degree, it is as though the two customers lived in different worlds. Seamless market operations means that it shouldn't make any real difference whether a customer lives in downtown Boston or moves a few miles out -- or if the customer moves from one home to another in the same metropolitan area. But today, the administrative costs resulting from different tariff provisions across adjacent LDCs creates costly "seams" in the market, such that it is not surprising for a supplier to focus its marketing activities solely on a limited subset of the LDC tariff markets.

Efficient: Mass marketing requires market efficiencies with a minimum of mistakes and misunderstandings. The variation of pricing and operational rules from one LDC to the next increases, rather than decreases the possibility of such problems, discouraging efforts to gain economies of scale by expanding operations across a larger number of tariff markets.

Painless. Customers, even more than suppliers, are busy people. Thus the length of time a retail supplier may have to persuade a potential mass market customer to contract for gas supply is measured in seconds, not minutes. It is important to put the cost of residential gas service into context. In 1997, for example, the average cost of residential natural gas service in New England for an entire household was

\$2.24 per day, which is to say somewhat less than a single consumer might pay for a specialty coffee.³ With the sharp price increases in 2001, the average New England residential household spent about \$2.78 per day on natural gas.⁴ The

³ See US Energy Information Administration, *New England Data Abstracts* (1997) available online at: http://www.eia.doe.gov/emeu/rep/abstracts/new_eng.html#households (viewed June 8, 2004).

⁴ See Table CE1-9e. Total Energy Expenditures in U.S. Households by Northeast Census Region, 2001 in US

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Energy Information Administration, Residential Energy Consumption Surveys, 2001 Consumption and Expenditures Tables, available online at:
http://www.eia.doe.gov/emeu/recs/recs2001/ce_pdf/enduse/ce1-9e_ne_region2001.pdf (viewed June 8, 2004).

difference in price among competing suppliers will of course be some fraction of that amount. Consumers do not normally spend a great deal of time making purchase decisions of that small order of magnitude. Hence, anything that increases the “pain” level of choosing a new supplier tends to discourage migration to competitive supply. For example, a requirement to confront the customer with several pages of fine print to select a competing supplier (especially where the customer is not required to read anything at all to continue with the existing supplier) will tend to slow migration to competitive suppliers. This is not, of course, to say that there should not be appropriate rules governing customer sign-up or the like. It is only to observe that even practices that may appear very minor may have a significant impact on the ease with which customers switch to and among competitive supply options.

Q. EES-7(b): *Please discuss fully the following issues: (b) how the voluntary capacity assignment and the path approach could spur competition at the residential and small C&I retail markets.*

A. EES-7(b): As explained in EES’ Initial Comments in this docket, the fragmentation of capacity among various paths increases administrative costs and reduces administrative flexibility. In terms of the prior response, this policy thus *reduces efficiency, exacerbates seams, and increases the “pain” factor* in serving any market segment. This tends to translate into market strategies that focus on serving relatively smaller numbers of relatively larger customers, rather than the mass market which requires the opposite business approach. Thus, the reason why voluntary capacity assignment or a modified path approach tends to encourage competition among smaller customers is that it tends to enhance efficiency, minimize seams and reduce the “pain” factor in handling larger numbers of transactions.

- Q. EES-8:** *Energy East initial comments at 6 states that the Department Fragmentation Policy has been one of the principal restraints on the development of competitive retail access over the past five year . In addition, Energy East reply comments at 7 states that other factors may certainly enter into the equation. Please discuss what other factors Energy East Solution refers to.*
- A. EES-8:** A number of the factors adversely affecting the competitive marketing business over the last few years are not within the Department's ability or responsibility to solve, such as the demise of the large wholesale providers, the industry-wide trend toward higher credit costs, and the increase in natural gas commodity prices after nearly over a decade a historically low prices.

Q. EES-9: *Please provide a list the entry barriers in the retail Massachusetts market.*

A. EES-9: The transition to a competitive retail marketplace requires considerable changes in consumer purchasing practices as well as changes in the business and regulatory practices that we have addressed above. Such changes take time. Hence, creating a competitive marketplace where one has never existed is not going to happen overnight (unless the Department were to adopt the “big bang” approach of the Georgia legislation, which created significant administrative, billing and customer care issues of its own). It is a rather more prosaic matter of getting as many of the details right as one can. Success in creating the market will result from successfully addressing a large number of fairly discrete problems (such as the capacity fragmentation policy discussed in EES’ Initial Comments).

Successful retail marketing requires detailed local knowledge of the market and the customer needs. A number of companies who publicly stated their advocacy for abrupt, disruptive change in the retail energy markets are no longer active in the market at all, whereas the survivors are those who focused on such everyday, boring details as accurate nominations and schedule, accurate, timely billing, responsive customer service, etc.

It is worth repeating that the smaller the end use customer served, ***the more efficient the supply chain must be***. Costs must be minimized to the extent practical consistent with the Department’s public policy objectives. It is for this reason that EES focused on urging some relatively small operational changes in the allocation of upstream capacity to remove what appears to be unnecessary administrative complexity. In sum, EES would urge the Department to improve the “nitty-gritty” operational problems that add costs unnecessarily and fritter away potential value -- eating into customer savings and competitor profits alike - - and reducing the size of the effectively addressable market. We would begin, as stated in the Initial Comments, by adopting an appropriate path approach to upstream capacity, a solution to which would create immediate and tangible -- if limited -- benefits to the marketplace. Other items addressed in the Initial Comments could also make a valuable contribution (such as addressing the OFO and cash-out amounts discussed by Amerada Hess).

In addition, the Department can encourage the further elimination of redundant administrative costs and differing operational rules and practices. The Standard Terms and Conditions developed in the Collaborative discussions five years ago were helpful, but more can be done. For example, data transfers between the LDC and the suppliers can be made more efficient. There is still a patchwork of practices among the Massachusetts LDCs with regard to data transfer. Even EDI is far from as efficient and as user-friendly as it needs to be.

The Department could also take several steps to reduce administrative costs resulting from the need for regulatory oversight. As noted above, the Department could adopt a one-time licensing procedure with an annual report in place of the current need to re-file a complete application. Similarly, there would even be a cost reduction to the extent the Department could simplify its own filing procedures.

The important point is that creating a competitive market requires addressing a host of details, many of which are small, but which in the aggregate change the commercial equation.

Q. EES-10: *Under the competitive suppliers experience, what should the minimum savings offered by competitive suppliers be in the commodity portion of the customers bill in order to encourage customers to migrate to transportation service?*

A. EES-10: It is the customer, not the competitive supplier, that determines what the minimum savings should be to justify the switch, taking all other factors into account. As noted above, customers switch *to* and *among* competitive suppliers for a variety of reasons, not just the commodity portion of the bill. Switching decisions represent a spectrum of choices, not a simple dichotomy. Hence, at one extreme, a customer may be happy to match the general market price or even pay a premium so long as the supplier provides other services the customer seeks, while at the other end of the spectrum another customer may focus exclusively on the price and expect a specific discount to utility service. Most customers will lie somewhere between these two extremes.

Q. EES-11: *Please discuss the minimum scale necessary (in terms of volume and / accounts) to maintain profitable retail operations in the gas Massachusetts market.*

A. EES-11: Again, as noted above, there is no single metric of minimum scale that will ensure profitable retail operations. Suppliers' costs and objectives differ from each other and differ over time. Market segment characteristics differ. Plainly, however, the less seamless, less efficient, and more painful it is to conduct transactions on an individual LDC or across several LDCs, the more the minimum scale for successful operation tends to rise, other things being equal. Similarly, the more seamless, more efficient and less painful transactions become, the more the minimum scale required tends to fall, other things being equal.

Q. EES-12: *Please provide a Table with the number of monthly contracts stranded due to their small size since 1999 to January 2004 as well as the total MDQ associated to them, and the monetary value of them.*

A. EES-12: The reference to stranded “monthly contracts” is not entirely clear, but it appears that the question refers to a point raised in the Initial Comments of Amerada Hess regarding the upstream transportation contracts that are not used as a result of LDC's only releasing the capacity for a month at a time. As EES's concern has been the overall administrative complexity and cost of administering the fragmentation of upstream capacity, EES has not attempted to quantify this particular consequence of the upstream fragmentation problem.

Q. EES-13: *Please discuss and fully support your answer with respect to the reduction in the number of marketers since 1999 up to day. Is it because consumers decide to migrate back to the LDC or it is because marketers leave the system and as a result, customers have to go back to default service?*

A. EES-13: While lacking direct knowledge of customer and supplier motivations, it would appear that customers have gone back to LDC service for both reasons. Hence, in the Pioneer Valley residential program on Bay State Gas, a fairly sizeable number of residential customers were apparently returned to LDC default service as a result of suppliers' decision to exit that market.

But with regard to the commercial and industrial markets that EES serves, it is EES' experience that customers change suppliers for various reasons and may themselves switch among the competitive suppliers or choose to select the LDC sales service.

Q. EES-14: *Refer to Bay State reply comments at 6. Please address: (a) how the path approach addresses the non-price differentials as discussed by Bay State, and (b) what measures can be taken to either eliminate or reduce the risk of leaving higher-cost capacity to the LDCs to serve the sales customers.*

A. EES14: As explained in EES' Initial Comments, EES is proposing that all paths be assigned to marketers using the system weighted average cost of capacity, with the marketer either paying the LDC for the difference in cost for a "cheaper" path or receiving a credit for the assignment of an "expensive" path. Therefore, the unit cost of capacity to serve the LDCs sales customer should not be affected by the assignment of capacity to the marketers.

To the extent that Bay State is concerned that there are pricing differentials among various supply sources, the response is that *wholesale prices adjust constantly*. Stating that the shift to a path approach will leave LDCs with "higher-cost" supply or capacity implies a static analysis that assumes that commodity prices will not adjust to other market changes. It is far more likely that commodity prices will quickly adjust to market changes. For example, if demand for gas were to fall at some points or paths (because it has shifted to other supply sources that were more attractively priced at that point in time), one would expect wholesale suppliers to adjust their prices to regain market share. Were the Department to try to "lock in" current basis differentials in the wholesale markets, it would either succeed (and foreclose competition, thereby driving up the overall price level), or it would be unable to do so, but the efforts would reduce efficiency and create more seams among markets, reducing transparency and driving up costs.